

Message Text

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TAGS: EFIN, SZ
SUBJ: SNB GENERAL MANAGER LANGUETIN ON THE INTERNATIONAL
FINANCIAL SITUATION

(THIS TELEGRAM PREPARED BY AMCONSUL ZURICH)

1. SUMMARY: IN ADDRESS BEFORE ANNUAL GENERAL MEETING
SWISS-AMERICAN CHAMBER OF COMMERCE IN ZURICH APRIL 24,
SNB GENERAL MANAGER PIERRE LANGUETIN MADE FAMILIAR
SWISS PLEA FOR STABLE BUT ADJUSTABLE EXCHANGE RATES.
HE ALSO CALLED ON USG TO MAKE A QUOTE CONVINCING START
UNQUOTE ON APPROPRIATE MEASURES TO REDUCE CURRENT ACCOUNT
DEFICIT AND TO ATTACK ENERGY AND INFLATION PROBLEMS.
IN PRIVATE CONVERSATION LANGUETIN SAID SNB HAD NOT
FINALIZED ITS VIEWS ON WITTEVEN SDR/DOLLAR SUBSTITUTION
PROPOSAL. END SUMMARY.

2. LANGUETIN REMARKED THAT THE ALLEGED INDEPENDENCE OF
MONETARY POLICY UNDER A FLOATING RATE SYSTEM HAD PROVED IN
PRACTICE TO BE AN ILLUSION. HE REPEATED SWISS PREFERENCE
FOR STABLE, BUT ADJUSTABLE RATES, BUT FELT IMF
UNLIKELY TO MOVE AWAY FROM NEWLY LEGITIMIZED FLOATING
RATE REGIME BECAUSE OF US VETO POWER.

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3. LANGUETIN ASSERTED US CURRENT ACCOUNT DEFICIT AND
WORRIES ABOUT ENERGY AND INFLATION IMPAIR DOLLAR'S
FUNCTION AS A TRANSACTION AND RESERVE CURRENCY.
REPLACEMENT OF DOLLAR AS A RESERVE CURRENCY AND
RESULTING END TO PRIVILEGE US HAS TO FINANCE CURRENT
ACCOUNT DEFICITS IN DOMESTIC CURRENCY WOULD NOT BE IN
USG INTEREST. SUPPLANTING DOLLAR AS TRANSACTIONS

CURRENCY WOULD RESULT IN HIGHER RAW MATERIALS PRICES AND WOULD THREATEN FREE INTERNATIONAL MOVEMENT OF GOODS AND CAPITAL.

4. LANGUETIN WELCOMED PRESIDENT'S YEAR-END STATEMENT IN SUPPORT OF DOLLAR AND RECENT TESTIMONY BY SECRETARY BLUMENTHAL LINKING STRENGTH OF THE DOLLAR TO PASSAGE OF US ENERGY LEGISLATION. HE ALSO APPLAUDED ACTIONS BY FEDERAL RESERVE TO INCREASE DISCOUNT RATE AND TO INTERVENE MORE FORCEFULLY IN EXCHANGE MARKETS. HE REITERATED SWISS BELIEF COORDINATED INTERVENTION BY CENTRAL BANKS WOULD BE PARTICULARLY DESIRABLE.

5. ON THE NEGATIVE SIDE, LANGUETIN NOTED THAT US ENERGY LEGISLATION STILL TIED UP IN CONGRESS AND THAT ADMINISTRATION'S ANTI-INFLATION PROGRAM NOT YET IN EFFECT. HE FELT THAT BUDGET DISCIPLINE WOULD BE KEY INGREDIENT IN BATTLING INFLATION AND SAID THAT FEDERAL RESERVE SHOULD NOT HAVE TO SHOULDER THIS TASK ALONE.

6. IN PRIVATE DISCUSSION CONSOFF ASKED LANGUETIN FOR SNB VIEW ON WITTEVEN SDR/DOLLAR SUBSTITUTION PROPOSAL. HE REPLIED THAT SNB HAD NOT FINALIZED VIEWS ON PLAN BUT HE FELT IT MIGHT BE ATTRACTIVE TO SOME IMF MEMBERS. HE WONDERED WHAT EFFECT
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PROPOSAL WOULD HAVE ON PRIVATE HOLDERS OF DOLLARS. HE ALSO NOTED PLAN WOULD DO NOTHING TO RESOLVE THE BASIC CAUSES OF CURRENT PROBLEMS.

7. TEXT BEING POUCHED TO EUR/CE. WARNER

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